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ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Possible Topics for Discussion with Secretary Shultz

FROM:

Maurice C. Ernst
NIO for Economics

EXTENSION

NO.

DATE

5 January 1983

TO: (Officer designation, room number, and building)

DATE

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COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1.

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DCI
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7/Jan 83

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DCI -
This is for your
meeting with Shultz
tomorrow. Because of
its bulk, I left
it together. Your
Shultz book will
refer to it.

DCI
EXEC
REG

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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

NIC #0070-83
5 January 1983

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: Maurice C. Ernst, NIO/Economics

SUBJECT: Possible Topics for Discussion with Secretary Shultz

1. I understand State INR has suggested you might want to discuss the implications of some recent international financial issues--specifically the situation in Brazil and Romania--with Secretary Shultz in your meeting scheduled for 7 January. I do not believe we have any unique information to provide. But a more general problem, which has been apparent for some time, is coming to a head. That is the way the US government is handling policy formulation on such complex issues as the implications of the international financial crisis.

2. Harry Rowen and I have mentioned to you on a couple of occasions our concern that the process of international economic policy formulation was piecemeal and lacked integration. The interagency study led by Treasury on the LDC debt problem was criticized by Commerce and the NSC staff for being too narrow, and in particular for not adequately considering the interactions between financial developments, international trade, and overall economic activity. Some additional studies were done on this topic and Treasury has drafted a so-called "strategy" for dealing with the international financial problem, for discussion in the IG- and SIG-IEP. My own view, and that of at least Commerce and the NSC, is that this paper is narrow, parochial, and unimaginative.

3. Treasury is advocating continuing to deal with LDC financial problems mainly through ad hoc aid packages and reschedulings, together with an increase in IMF resources. It is probably true that a major crisis can be avoided if all the actors play their role as prescribed (see attached "Prescriptions" from the Treasury paper). But will they? I can think of major uncertainties:

- o The debtor countries may not, indeed probably will not, follow the agreed adjustment program.

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- o Treasuries may run out of funds if "ad hoc" crises continue-- Brazil, for example, has now come back three times for more "bridging" money.
- o Many private lenders may draw down their exposure or be unwilling to increase it.

Moreover, the Treasury paper says nothing about how LDC financial adjustment requirements can be related to the realities of world trade in a severe economic recession.

4. As you know, Secretary Shultz has been extremely concerned about the international economic situation, but does not have the staff to adequately follow up on these concerns. Norm Bailey of the NSC is sufficiently unhappy about the formal policy process to have written an article, summarized in the attached Business Week, proposing some different remedies. Lionel Olmer feels frustrated as well, and is preparing some policy suggestions. Harry and I believe that the only way the situation can be improved is by creating a small, senior full-time staff under the SIG-IEP. Harry wrote the attached informal letter to Ken Dam a couple of weeks ago suggesting this. You may want to raise this matter with Secretary Shultz.

5. Creation of such a staff would facilitate intelligence support. DDI and NIC products on this issue (see attached) have been very well received because they addressed some of the main concerns of many top officials. But our contribution could be made more directly useful to policy if the issues could be formulated in a more coherent way.


Maurice C. Ernst

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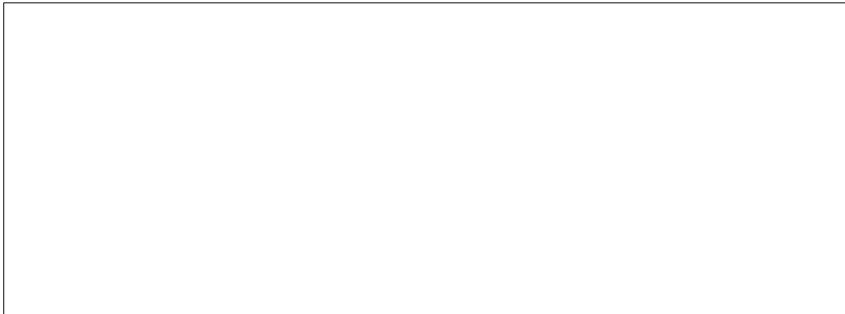
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DCI/NIO/Econ:M.Ernst: (5 Jan 83)

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